Economics & Country Risk

Same-Day Analysis

Latin America: Risks and opportunities during 2014

Published: 1/2/2014

IHS Country Risk flags 10 of the most salient regional risks and opportunities for 2014.

IHS Global Insight perspective	
Significance	Latin America presents a mixed horizon of opportunity and risk entering 2014.
Implications	With a late-year election in Brazil, root and branch reforms developing in Mexico, Argentina and Venezuela both facing profound economic challenges, and Colombia moving towards internal peace, major regional countries face potential step-change during 2014. However, some smaller regional countries will provide significant opportunities during 2014.
Outlook	Regulatory and security issues will remain the key challenges for the region's operational environment during 2014, but a wealth of natural resources and stable electoral democracies across much of the region means that the opportunities will remain strong throughout the year.

World Cup infrastructure works in Brazil
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The largest regional economy, Brazil, faces a major challenge in 2014. It will see its infrastructure and public security tested to the maximum as it hosts the football World Cup in June–July. How successfully the authorities meet those challenges could profoundly influence the presidential election in October. In Mexico, President Enrique Peña Nieto will attempt to cement his alliance with the opposition National Action Party (Partido Acción Nacional: PAN) in order to guarantee the smooth passing of secondary legislation needed for the implementation of an energy reform passed in 2013. Two other major countries – Venezuela and Argentina – face major economic challenges that could spark profound social and political consequences. One game-changing scenario will develop further in Colombia. The peace process there between the government and Fuerzas Armadas Revolucionarias de Colombia (FARC) insurgents looks likely to meet with success during 2014, giving a potential boost to the operational environment as security improves. Public security will also remain a critical issue in Central America, especially in Honduras, where levels of violence will almost certainly stay at historically high levels during 2014, challenging a resource-poor government. Meanwhile, recently elected Paraguayan president Horacio Cartes will focus on making Paraguay one of Latin

America's most investment-friendly countries during 2014, while in Peru growth in the mining sector looks likely to face stiff challenges related to environmental concerns and global commodities prices.

Risks

In **Venezuela**, more government intervention in the economy is likely in 2014. The results of the municipal elections in December 2013 indicate that the governing United Socialist Party of Venezuela (Partido Unido Socialista de Venezuela: PSUV) is slowly losing ground and the opposition is gradually strengthening. President Nicolás Maduro will impose more price controls on almost every sector of the economy, facilitating expropriations, and implementing a 30% cap on profits. Businesses whose profits will not justify operating in that hostile business environment are unlikely to restock inventory or invest further, leading to more inflationary pressures and shortages of food and basic goods. Annual accumulated inflation – assessed on 30 December by President Maduro at 56.2% – and ongoing shortages would be likely to prompt isolated events of looting and civil unrest. Plans to update foreign exchange rules are likely to further restrict profit repatriation efforts. Firms operating in the country face the risk of a devaluation.

In **Peru**, prospects for the mining sector – which experienced record investment of approximately USD9.5 billion in 2013 – look mixed for 2014. Social conflicts resulting from opposition to projects like Newmont's USD5-billion Minas Conga Project in the northern Cajamarca region, and projects possibly put on hold due to the decrease in the international prices of metals, such as Anglo American's USD5-billion Quellaveco development in the southern Moquegua region, are likely to affect the sector. Meanwhile, projects such as Chinalco's USD3.5-billion Toromocho will go ahead, but investment in the sector is unlikely to increase if environmental permits and consultation processes are not eased.

In **Brazil**, the main concern is whether the World Cup in June–July 2014 will be a focus for similar unrest to that experienced in June 2013. President Dilma Rousseff's government has had some success defusing the anger that drove the June 2013 protests by addressing the issues, including public transport prices and police tactics around mass protests; Rousseff has regained some of the popularity lost during the June protests. However, a string of scattered protests since then highlights the ongoing risk that Brazil's inefficient infrastructure and high levels of corruption could again become triggers for unrest. World Cup host cities – especially Brasília, Rio de Janeiro, and São Paulo – are most likely to be affected, although the stadia and surrounding areas are less likely to be focal points for protests than government buildings in those cities.

In **Honduras**, President-elect Juan Orlando Hernández of the ruling National Party (Partido Nacional: PN) takes office in January 2014, in the midst of a financial and public security crisis. The PN will remain the largest in the 128-seat unicameral legislature, albeit down from 71 deputies to 48. This is likely to frustrate the government's ability to implement significant structural reforms, a probable prerequisite of the International Monetary Fund loan sought by Hernández. Given the growing influence of Mexican drug trafficking organisations in Honduras, public security is unlikely to improve in 2014, despite the rollout of a new 5,000-strong military police force beginning from October 2013.

Argentina ended 2013 with the range of challenges it faces clearly exemplified by lengthy power blackouts in major cities. That emphasised the key importance to the government that development of the huge Vaca Muerta unconventional oil and gas deposits will take on during 2014, both to move towards energy self-sufficiency and to stem the outward flow of US dollars on energy imports. The government of President Cristina Fernández de Kirchner will struggle to contain social dissatisfaction on public security and prices of basic goods, while also seeking a credible successor for Fernández before the presidential election in 2015. That is likely to lead to heightened political and social polarisation, with a high probability of industrial unrest and social protests in major cities throughout 2014.

Opportunities

In **Colombia**, peace talks between the Colombian government and FARC represent the greatest opportunity yet for ending Colombia's 50-year armed conflict. An end to the insurgency would represent a major milestone towards improving Colombia's security situation, although significant challenges would remain in the form of organised crime and drug trafficking. Peace in Colombia would support growth of foreign direct investment, particularly in the energy, oil, and mining sectors. A peace agreement appears likely in the one-year outlook. The collapse of the process appears less likely, but would bring a rapid deterioration in security.

There are strong signs that **Paraguay's** investment climate will improve in 2014. The government is firmly pro-business under Cartes. IHS expects that Cartes will forge ahead with pro-investment policies, which, since he came into office in August 2013, have included passage of a public-private partnership bill. Driven by beef and soybean exports, Paraguay is also the fastest growing economy in Latin America, and we assess that there will be 13% GDP growth in 2013. That will level out at around 6% in 2014, which is still a respectable performance by global standards. Cartes has clearly signalled that he wishes to widen and deepen Paraguay's trade and investment with the European Union. One potential avenue for that is oil, with western Paraguay's Chaco region currently the focus of oil exploration.

In **Brazil**, infrastructure development will present major opportunities in 2014, after the government pushed forward in a number of areas during 2013. These included legislation to allow for greater private investment in ports, likely to attract strong interest from private investors, and also potentially leading to a marked reduction in transport costs. There were also successful auctions for concessions for airports and highways, with improved contractual conditions and financial incentives for the latter. The improving regulatory environment should thus attract foreign investment in major infrastructure projects and accelerate activity in the construction sector as Brazil addresses concerns over transport and infrastructure bottlenecks before the World Cup in 2014 and the Olympic Games in 2016.

In **Mexico**, President Peña Nieto successfully managed to build enough cross-party support in Congress to pass the much-awaited energy reform in December. The passing of this reform has been a game-changer, as it will generate new investment opportunities in a sector that had been closed to private participation for decades. The reform eliminated state-run PEMEX's monopoly over the hydrocarbon sector, paving the way for investment opportunities in upstream, downstream, and electricity. Implementation will start after the passing of secondary legislation in 2014. Once implementation gets under way, the economy will benefit from new sources of investment, with the government calculating that the economy could grow by as much as 5.3% of GDP by 2018.

In **Haiti,** the government will attempt to introduce a new mining law in 2014. This will establish a regulatory framework for the exploration and development of Haitian subsoil resources and restart operations in the sector, following their suspension in February 2013. International non-governmental organisations and local civil society organisations have already started to rally opposition to mining activities, and President Michel Martelly's government is facing increasing political opposition. However, the legislation – which the World Bank is helping to draft – will open opportunities for foreign investment in the estimated USD20-billion worth of gold, silver, and copper deposits in Haiti's northeastern mountain range.

Outlook and implications

The Latin America and Caribbean region presents a familiar mix of risks and opportunities during 2014, with the key risks lying in the regulatory and public security environment. The former is driven by economic pressures in some key regional countries, and by the attempts of some regional governments to push self-avowed pro-poor policies despite weak economic growth. In public security, while some regional countries – for example Chile, Peru, and Uruguay – will maintain comparatively safe security environments, many countries will remain afflicted by the consequences of transnational drug smuggling. Recent trends indicate that Argentina and Brazil – now very substantial drug consumer markets – will find that malign influence increasingly problematic during 2014. However, raw materials – including minerals and foodstuffs – are plentiful, infrastructure is improving in many of the major economies, and electoral democracy is likewise firmly entrenched, albeit with ongoing concerns over the variable quality of democracy and institutions throughout the region. Most of the region will therefore remain a broadly positive investment and operational destination during 2014.

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